

Direct Loans

William D. Ford Federal Direct Loan Program

HEALTH PROFESSIONS LOANS

With a Direct Consolidation Loan, borrowers combine certain health professions loans with other undergraduate and graduate federal education loans to make one payment. They must include at least one Direct Loan or Federal Family Education Loan (FFEL) in the Direct Consolidation Loan.

The Loans

- Health Professions Student Loans (HPSL)
- Health Education Assistance Loans (HEAL)
- Loans for Disadvantaged Students (LDS)
- Nursing Student Loans (NSL)

Primary Care Loans are not eligible for Direct Consolidation.

The Advantages

Direct Consolidation Loans offer many advantages to borrowers of health professions loans. These may include: a longer repayment period, a lower monthly payment, a lower interest rate, and a single monthly payment. Borrowers should weigh carefully the benefits of their loans and the following additional advantages of a Direct Consolidation Loan.

- Borrowers who have defaulted on a HEAL may include the collection costs and late fees in a Direct Consolidation Loan. These fees may not be included in a HEAL consolidation loan.
- Under the Direct Consolidation Loan Program, HEAL borrowers may repay under the Income Contingent Repayment (ICR) Plan for the life of the loan. HEAL lenders are only required to offer an ICR Plan for the first five years.
- To qualify for an in-school deferment, Direct Consolidation Loan borrowers

must be attending school at least half time. HPSL, HEAL, and LDS borrowers are required to attend school full time to be eligible for an in-school deferment.

Issues to Consider

Before borrowers apply for a Direct Consolidation Loan they should also consider the following:

- Borrowers whose loans are in a grace period should be encouraged to wait until the last month of that grace period to apply for consolidation. Repayment on consolidation loans begins within 60 days of the first disbursement and, thus, could cut short the grace period of a borrower who applied too early.
- The interest rate is fixed at 5 percent for HPSL, LDS, and NSL borrowers. HEALs may be offered as fixed or variable rate loans; the maximum interest rate is based on the average 91-day Treasury bill rate plus 3 percentage points and is not capped. The interest rate on student loans under the Direct Consolidation Loan Program is variable with an 8.25 percent cap for the life of the loan.
- The interest on some health professions loans is subsidized by the Department of Health and Human Services. This interest subsidy is lost when such a loan is included in a Direct Consolidation Loan.
- Interest does not accrue during deferment and grace periods for HPSL, LDS, and NSL borrowers. Interest does accrue during deferment and grace periods on Direct Consolidation Loans that include health professions loans.
- Borrowers who consolidate health professions loans do not retain the deferment benefits that apply to those loans. However, they gain the deferment benefits that apply to Direct Consolidation Loans. They may be eligible for additional deferment benefits if they include an FFEL borrowed before July 1, 1993, in the consolidation loan. Borrowers should be counseled concerning this trade-off.